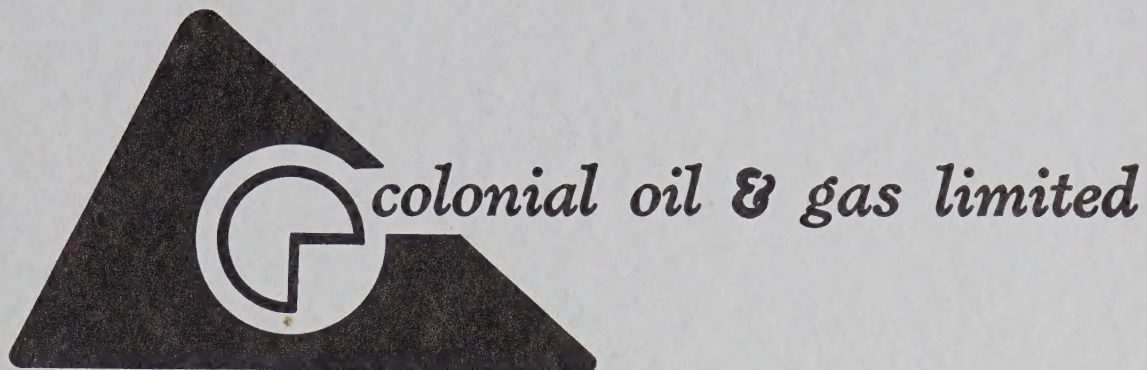


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Annual Report

FOR PERIOD ENDED OCTOBER 31, 1971

1758 WEST 8th AVENUE
VANCOUVER 9, B.C.

COLONIAL OIL & GAS LIMITED

REPLY TO:

P.O. BOX 4183, STATION D

VANCOUVER 180, B. C.

NOTICE OF ANNUAL GENERAL MEETING

To the Shareholders:

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of COLONIAL OIL & GAS LIMITED will be held in the Queen Anne Room of the Hotel Georgia, Vancouver, British Columbia on Friday, the 28th day of April, 1972 at 10:00 a.m. (Vancouver Time) for the following purposes:

1. To receive and consider the report of the Directors, the financial statements of the Company for the period ended October 31, 1971 and the report of the Auditors thereon.
2. To appoint Auditors for the ensuing year and authorize the Directors to fix their remuneration.
3. To elect Directors for the ensuing year.
4. To confer a general authority on the Directors (expiring at the next Annual General Meeting of the Company unless then continued by ordinary resolution) to take or acquire by purchase or otherwise any shares in any other corporation, and to empower the Directors to exercise such authority on the Company's behalf.
5. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The report of the Directors to the Shareholders, the financial statements made up to October 31, 1971 together with the report of the Auditors thereon, an Information Circular and form of Proxy accompany this Notice.

Shareholders who do not expect to be able to attend the meeting in person are requested to complete, sign, date and return the enclosed proxy.

DATED at Vancouver, British Columbia, this 14th day of April, 1972.

ON BEHALF OF THE BOARD
HARVEY A. McDIARMID,
President.

COLONIAL OIL & GAS LIMITED

REPLY TO:

P.O. BOX 4183, STATION D
VANCOUVER 180, B. C.

INFORMATION CIRCULAR as at April 1, 1972

This Information Circular is furnished in connection with the solicitation of proxies by the management of COLONIAL OIL & GAS LIMITED (the "Company") for use at the Annual General Meeting of the Shareholders of the Company to be held on Friday, the 28th day of April, 1972 at the time and place and for the purposes set forth in the Notice of Meeting.

The cost of this solicitation will be borne by the Company.

APPOINTMENT AND REVOCABILITY OF PROXY

The persons named in the accompanying form of Proxy are Directors of the Company. A shareholder desiring to appoint some other person to represent him at the meeting may do so by striking out the printed names and inserting the desired person's name in the blank space provided in the form of proxy.

A proxy may be revoked by instrument in writing executed by the Shareholder or his attorney authorized in writing or, if the Shareholder is a corporation, under its common seal or by an officer or attorney thereof duly authorized and deposited at Montreal Trust Company, 466 Howe Street, Vancouver, British Columbia not later than 4:00 o'clock in the afternoon on Thursday, the 27th day of April, 1972 or with the Chairman of such meeting on the date of the meeting, or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PROVISIONS RELATING TO VOTING

The shares represented by proxy in the form enclosed will be voted by the designated holder thereof in accordance with the direction of the Shareholder appointing him. In the absence of such direction it is intended that such shares will be voted in the affirmative for all proposals set out in the accompanying form of Proxy and for the election of Directors and the appointment of Auditors as set out under those respective headings in this Circular.

The enclosed form of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the meeting.

The Company is authorized to issue 5,000,000 shares without nominal or par value of which there are 1,200,005 shares issued and outstanding. All shares in the capital stock of the Company are of the same class and carry one vote each.

Shareholders desiring to be represented by proxy at the meeting must deposit their proxy forms at Montreal Trust Company, 466 Howe Street, Vancouver, British Columbia before 4:00 o'clock in the afternoon (Vancouver Time) on Thursday, the 27th day of April, 1972.

ELECTION OF DIRECTORS

The Directors of the Company are elected annually and hold office until the next Annual General Meeting of Shareholders, or until their successors in office are duly elected. The Management of the Company proposes to nominate the persons listed below for election as Director of the Company to serve until the next Annual General Meeting or until their successors are elected or appointed. In the absence of instructions to the contrary, proxies given pursuant to this solicitation by the Management of the Company will be voted for the nominees listed in this Circular.

The following table sets forth the names of the persons proposed to be nominated for election as Directors, the positions and offices which they hold with the Company, their respective principal occupations or employments, the period during which each of them has served as a Director of the Company, and the number of shares of the Company beneficially owned directly or indirectly by each of them as of April 1, 1972:

<u>Proposed Nominee</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Shares Owned</u>
HARVEY A. McDIARMID 446 W. 27th Avenue Vancouver, B.C. Director & President	President, National Homes Ltd.	November 30, 1971	7,500
G. DOUGLAS Mac DONALD, 6090 Blenheim Street, Vancouver, B.C. Director, Vice-President & General Manager.	Director & General Manager, Rolling Hills Copper Mines Ltd. (N.P.L.)	January 9, 1968	58,266

FRED W. MAYCOCK 2286 W. 20th Avenue Vancouver, B.C. Director & Assistant Secretary-Treasurer	Comptroller, Campbell-Bennett Ltd.	November 16, 1964	18,456
HORACE REKUNYK 775 I.B.M. Building, Calgary, Alberta, Director	Managing Director, Provident Resources Management Ltd.	November 28, 1969	35,000
ROBERT W. HOLE 2550 Courtenay St. Vancouver, B.C. Director	President, Lockerbie & Hole Western Ltd.	November 30, 1971	11,000
WILLIAM A. BAIRD 5210 Cliffridge Avenue, North Vancouver, B.C. Director.	Manager, Netherlands Acceptance Corporation Ltd.	February 7, 1972	15,000

The information as to shares beneficially owned, not being within the knowledge of the Company has been furnished by the respective proposed nominees.

REMUNERATION OF MANAGEMENT AND OTHERS

During the period ended October 31, 1971 the sum of \$6,600.00 was paid to Senior Officers and Directors of the Company.

No bonus, profit sharing, or other remuneration, plan, contract, or arrangement in which any Director or proposed nominee for election as Director or Senior Officer of the Company will participate has been instituted.

No pension or retirement plans have been instituted by the Company.

No options, warrants, or rights to purchase any shares of the Company has been granted to any Director or proposed nominee for election as Director or Senior Officer of the Company.

APPOINTMENT OF AUDITORS

Young, Peers, Milner & Co., Chartered Accountants, are presently auditors of the Company and have offered themselves for reappointment as auditors of the Company for the ensuing year at a remuneration to be fixed by the Directors.

OTHER MATTERS TO BE ACTED UPON

It is not known that any other matters will come before the meeting other than as set forth above and in the Notice of Meeting, but if such should occur the persons named in the accompanying proxy intend to vote on them in accordance with the best judgement exercising discretionary authority with respect to amendments or variations on matters identified in the Notice of Meeting and other matters which may properly come before the meeting or any adjournment thereof.

COLONIAL OIL & GAS LIMITED

REPLY TO:
P.O. BOX 4183, STATION D
VANCOUVER 180, B. C.

April 14, 1972.

DIRECTORS REPORT TO THE SHAREHOLDERS:

Since the last Annual Meeting, which was held November 30, 1971, some substantial changes have occurred in your Company, which are not reflected in the financial statements.

An opportunity to purchase 14 billion cubic feet of proven Natural Gas Reserves, located in the Tiger Ridge - Bull Hook area of Montana, at a price of .05¢ per MCF, totalling \$700,000.00 was made available to the Company. Since the gas was on a "take-or-pay" contract with Northern Natural Gas Company of Omaha, Nebraska, at a rate of 15.5¢ per MCF, and since the vendors McKnight Petroleum Trust of Denver, Colorado had already received some \$186,000.00, your Directors made a firm offer which was accepted. Coincidental with this, a group of private investors, through the firm of McDermid, Miller & McDermid Limited, of Vancouver, had agreed to advance the Company \$500,000.00 (to net \$480,000.00) at 8-1/4% or 1-1/2% over prime rate, whichever is greater, and in addition, warrants were given to the Investors to purchase 250,000 common shares at .50¢ per share, exercisable before December 1, 1973.

The purchase of the McKnight interest was consummated December 11, 1971 in Calgary, when a wholly-owned subsidiary of the Company, COG, INC., a registered U.S. Company, purchased all leases, right and title in the Bull Hook Montana field of Macpet Oils Inc., the McKnight subsidiary. McDaniels Consultants of Calgary, one of the most prominent in the field, did the appraisal on which our purchase was based.

COG, INC. has a 10% working interest in 37 gas wells, and additional undeveloped land. The field is operated by High Crest Oils Inc., a U.S. subsidiary of Canadian Tricentrol Oils Ltd. of Calgary.

On March 24, 1971, Northern Natural announced that agreement had been reached with Trans-Canada Pipelines Ltd., regarding the movement of gas from sources of supply in Alberta and Montana to Eastern Canada and Upper Midwest U.S. markets. Under these arrangements, which are subject to approval of regulatory authorities, gas reserves committed to Northern Natural in the Tiger Ridge - Bull Hook area would be transported north by Northern Natural to Trans-Canada's pipeline system for re-delivery to Northern Natural at Emerson, Manitoba, from which delivery point the gas would be taken southward into the U.S. Market area served by Northern Natural. After gas production commences, Northern Natural will be entitled to take free one-third of the gas so delivered against payments made to the Company prior to initial delivery. However,

if the necessary consents from the regulatory authorities are not forthcoming, COG, INC. will continue to receive "take-or-pay" payments for twelve months from the date of such notice. Should the existing contract be terminated, and a new purchase contract be entered into between COG, INC. and another purchaser, then Northern Natural will be entitled to recover all amounts advanced out of one-quarter of seven-eighths of gas sold to the other purchaser. It should be emphasized that COG, INC. is obligated to repay "take-or-pay" receipts only out of future production.

Shortly after the acquisition of the McKnight interest was finalized, the Federal Power Commission has established an area price of 23.5¢ per MCF in Montana. Another prospective gas purchaser is offering contracts in the area at a price considerably in excess of this. The ultimate price could range from 23-1/2¢ to 30¢ per MCF, but this will depend on whether Northern Natural receives approval to proceed with its pipe-line as planned. This approval is anticipated in the near future.

Current annual revenue on the "take-or-pay" contract is approximately \$130,000.00 to the Company. If however, the FPC area price is received, or if the other purchaser is successful, COG, INC. will realize much higher annual income from the property. Needless to say, your Directors are very enthusiastic about the position this fine acquisition has given us and are most optimistic about the potential.

In our last report, mention was made of the Happy Valley leases in southwest Alberta, in which the Company has a 60% interest in over 20,000 acres with Pan Ocean Oils Ltd. and Stampede International Resources Ltd., each holding 20%, subject to overriding royalties. Atlantic Richfield, the farmeees are now proceeding with a geophysical programme, and are required to spend a minimum of \$100,000.00. At the conclusion of this stage, Atlantic Richfield has until February 1, 1973 to elect to drill an earning well. On entering the agreement with us, they made a cash advance of \$3.00 per acre to the Operator, our portion being \$37,500.00. All costs of maintaining the leases in good standing, taxes etc. are to the account of Atlantic Richfield. It is very encouraging that it is going ahead with the geophysical work well ahead of the original "election" date in the contract.

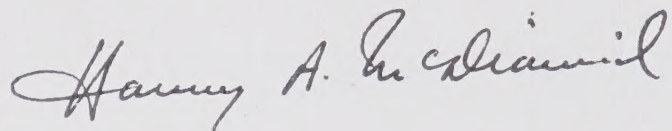
We have also been advised that a group, of which we are a 5% participant, has been granted an offshore lease in the United Kingdom North Sea gas and oil exploration play. The details are not available at this time.

Price Management Ltd. of Calgary has been retained to review our present holdings in line with a policy of emphasis on acquisitions rather than high-risk exploration ventures. They will assist us in assessing situations available to us. In addition, we intend to employ on a full time basis an experienced oil man to represent us in Calgary, and our office in that city will be reactivated. Our registered office and administrative office will continue to be in Vancouver.

In addition to Mr. H. McDiarmid and Mr. R. Hole who were elected Directors at the last Annual Meeting, Mr. Wm. Baird has been appointed a Director. Mr. Lyle Jestley has tendered his resignation as Secretary and a Director, and his years of service are appreciated by the Board.

Future prospects should be mentioned at this time, and it is the intention of your Board of Directors to aggressively pursue a policy of acquisitions in the oil and gas industry. We are constantly looking at situations, and when they are compatible and fall within our paramaters as to adequate rate of return, we shall endeavour to secure them.

ON BEHALF OF THE BOARD,



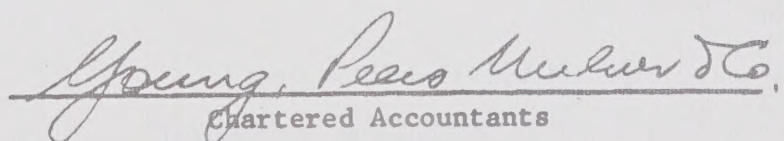
HARVEY A. McDIARMID,
President.

AUDITORS' REPORT

To the Shareholders
Colonial Oil & Gas Limited

We have examined the balance sheet of Colonial Oil & Gas Limited as at October 31, 1971 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported upon the financial statements for the preceding year.

In our opinion these financial statements, supplemented by the notes thereto, present fairly the financial position of the company as at October 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Vancouver, B.C.
February 14, 1972.

COLONIAL OIL & GAS LIMITED

BALANCE SHEET

OCTOBER 31, 1971 AND 1970

A S S E T S

CURRENT ASSETS

Cash	\$ 2,979	\$ 27,798
Deposit receipts - Royal Bank of Canada	165,000	225,000
Accounts receivable	41,830	9,420
Deposits	-	5,560
	<u>209,809</u>	<u>267,778</u>

PETROLEUM AND NATURAL GAS PROPERTIES,

at cost less accumulated depletion (Notes 1 and 2)	206,397	165,260
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FIXED ASSETS, at cost less accumulated
depreciation (Note 1)

	21,994	25,390
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INVESTMENT IN SUBSIDIARY (Note 3)

	500	-
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INCORPORATION AND ORGANIZATION EXPENSES

	6,121	6,121
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\$ 444,821	\$ 464,549
------------	------------

L I A B I L I T I E S

CURRENT LIABILITIES

Accounts payable	\$ 34,494	\$ 16,991
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SHAREHOLDERS' EQUITY

Share Capital: (Note 4)

5,000,000 common shares of no par value
authorized, of which 1,200,005
are issued

592,507	592,507
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Deficit:

Per statement attached

<u>182,180</u>	<u>144,949</u>
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410,327	447,558
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\$ 444,821	\$ 464,549
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On behalf of the Board:

"Harvey A. McDiarmid" Director

"Frederick W. Maycock" Director

COLONIAL OIL & GAS LIMITED

STATEMENT OF INCOME AND DEFICIT

FOR THE YEARS ENDED OCTOBER 31, 1971 AND 1970

	<u>1971</u>	<u>1970</u>
<u>SALE OF OIL PRODUCTION</u>		
Avon Hill	\$ 21,685	\$ 26,746
Java	1,616	4,387
Nassau	2,236	-
Dahl	4,577	-
	<u>30,114</u>	<u>31,133</u>
	-----	-----
<u>EXPENSES OF OIL PRODUCTION</u>		
Well operation		
Avon Hill	11,976	10,469
Java	2,707	8,375
Nassau	496	-
Dahl	1,628	-
Royalties	2,538	2,185
Depletion on producing properties	8,863	6,938
Depreciation	9,084	8,807
	<u>37,292</u>	<u>36,774</u>
	-----	-----
<u>LOSS FROM OIL PRODUCTION</u>	7,178	5,641
	-----	-----
<u>OTHER EXPENSES</u>		
Audit and legal	4,555	9,343
Bad debt (recovered)	(231)	8,000
Depreciation	200	249
Office expenses - Calgary	-	10,550
- Vancouver	9,984	3,565
Telephone	908	416
Transfer agent and Stock Exchange fees	1,079	1,563
Travel	1,785	2,914
	<u>18,280</u>	<u>36,600</u>
<u>Deduct: Interest earned on deposit receipts</u>	<u>10,199</u>	<u>12,875</u>
	8,081	23,725
	-----	-----
<u>LOSS FOR THE YEAR</u>	15,259	29,366
Development expenses transferred to deficit re areas abandoned	33,979	5,174
Adjustments to prior years depletion expense	(821)	(2,695)
Development expenses previously transferred to deficit in error - areas not abandoned	<u>(11,186)</u>	<u>-</u>
	37,231	31,845
<u>DEFICIT, beginning of year</u>	<u>144,949</u>	<u>113,104</u>
<u>DEFICIT, end of year</u>	<u>\$ 182,180</u>	<u>\$ 144,949</u>

COLONIAL OIL & GAS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED OCTOBER 31, 1971 AND 1970

	<u>1971</u>	<u>1970</u>
<u>SOURCE OF FUNDS</u>		
Funds expended on operations	\$ 15,259	\$ -
<u>Less:</u> Depreciation and depletion not requiring a current outlay of funds	<u>18,147</u>	<u>-</u>
	2,888	-
Sale of shares	-	262,500
Petroleum natural gas and oil permits - refund	4,270	-
Proceeds from Farmout Agreement	<u>37,500</u>	<u>-</u>
	44,658	262,500
	-----	-----
 <u>APPLICATION OF FUNDS</u>		
Funds expended on operations	-	29,366
<u>Less:</u> Depreciation and depletion not requiring a current outlay of funds	<u>-</u>	<u>15,994</u>
	-	13,372
Purchase of interest in petroleum and natural gas properties	35,606	5,659
Expenditures on development and equipment	84,024	47,575
Expenditures on corporate organization	-	1,509
Purchase of shares of subsidiary	<u>500</u>	<u>-</u>
	120,130	68,115
	-----	-----
<u>INCREASE (DECREASE) IN WORKING CAPITAL</u>	(75,472)	194,385
 <u>WORKING CAPITAL, beginning of year</u>	 <u>250,787</u>	 <u>56,402</u>
 <u>WORKING CAPITAL, end of year</u>	 <u>\$ 175,315</u>	 <u>\$ 250,787</u>
	=====	=====

COLONIAL OIL & GAS LIMITED

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1971

1. Properties and Equipments

	1971		
	Accumulated Depreciation and Depletion		
	<u>Cost</u>		<u>Net</u>
Petroleum and natural gas properties			
Leases	\$ 66,661	\$ 590	\$ 66,071
Deferred development costs	<u>158,813</u>	<u>18,487</u>	<u>140,326</u>
	<u>\$ 225,474</u>	<u>\$ 19,077</u>	<u>\$ 206,397</u>
Equipment			
Production	\$ 43,438	\$ 22,242	\$ 21,196
Office	<u>1,558</u>	<u>760</u>	<u>798</u>
	<u>\$ 44,996</u>	<u>\$ 23,002</u>	<u>\$ 21,994</u>

The company follows the practice of capitalizing all costs relative to the acquisition, exploration and development of oil and gas reserves as incurred. Costs applicable to producing properties are depleted on the basis of production and proven oil reserves. Costs applicable to abandoned properties are charged to deficit. Depreciation of office equipment and production equipment is calculated by the diminishing balance method at the rates of 20% and 30% respectively.

2. Values

The amounts shown for properties represent costs to date or costs less amounts written off to date and do not necessarily reflect present or future values.

3. Investment in Subsidiary

This amount represents the company's subscription for 100% of the issued common shares of COG Inc., a Wyoming corporation - see Note 4.

4. Subsequent Events

On December 1, 1971 the company raised \$500,000 (\$480,000 net to the company) by the sale of debentures, with interest at the greater of $8\frac{1}{2}\%$ or $1\frac{1}{2}\%$ over prime rate, secured by a fixed and floating charge on all the assets of the company. The debenture holders were granted warrants to purchase 250,000 shares of the company at 50 cents each exercisable before December 1, 1973. \$514,000 was subsequently advanced to COG Inc. (a wholly-owned subsidiary) to enable it to purchase an interest in certain gas reserves located in the Tiger Ridge Field, Blaine and Hill Counties, Montana, U.S.A. These gas reserves are subject to "take or pay" agreements with Northern Natural Gas of Omaha, Nebraska, a major utility.

5. Director's Remuneration

No director's fees have been paid by the company and remuneration to two officers (both directors) amounted to \$6,600 for 1971.

